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pt. 29, 1953

C/P - Mr. Bowie

This Latin American study has reached a stage at which I think we may clearly distinguish a substantial issue of policy which it raises. The policy in question is that represented by our economic aid programs. The issue involving this policy is not exclusive to our relations with Latin America and is, in fact, dealt with in the drafts we have seen of the Middle Eastern paper. The Middle Eastern paper, however, resolves it one way, while this Latin American study tends to resolve it the other way.

The issue does not involve loans made on business principles, or any other services furnished by our government which seem to be for payment. Neither does it involve payments to other governments that take the form of grants and are clearly made in support of US domestic programs -- like the $85,000,000 made available to wipe out the [illegible] like we have threatened our Western states, or the various grants to establish military conditions on the basis of which to secure [illegible]. The issue involved in this study arises only in regard to the economic development of the Latin American countries and promote [illegible] public loans.

[illegible] 1942, and were [illegible] emergency programs of the war agencies [illegible] for the purpose: the Institute of Inter-American

affairs

and the Inter-American Educational Foundation. Upon the conclusion of the war, the Congress (as the legislative record and committee reports will indicate) decided that the programs, which had from the first been conceived as relating only to the war emergency, should be terminated. The Department, which had inherited responsibility for the programs, pleaded with Congress that an abrupt termination of the programs would be damaging to our relations in Latin America. The Congress thereupon renewed the charter of the Institute of Inter-American Affairs (which now included the Educational Foundation) for a limited period on the explicit understanding, which the Department acknowledged, that during that period the cost of operating the programs and the responsibility should be transferred in gradual, orderly fashion to the respective Latin American Governments. Then came the Presidential proclamation of Point Four, Congressional authorization of Point Four, and global appropriations. What was intended to be contraction became expansion.

In terms of policy, the significant thing is that grant aid to meet a temporary emergency became grant aid as part of the permanent and normal conduct of US foreign relations.

Thus far, all our grant aid for Latin American economic development has been wrapped up in our technical assistance

assistance programs (unless the ambiguous case of $21,000,000 in post-war grants for the Inter-American Highway is an exception). Since the war, although it has been expanding of recent years, that grant aid has aggregated $78,100,000. This is a figure which we do not publicize in Latin America because it is widely regarded as inadequate, a complaint that was not made when the figure was zero.

If we consult the decade of experience we have now had with gratuitous assistance to Latin America, a typical evolution of psychology on the part of the recipients is clearly discernible. The initial offering of grant assistance, where none had been expected, while it arouses some initial embarrassment and suspicion, is gratefully received in an atmosphere that generates good will -- especially if the recipient country can assuage its pride and justify its acceptance by the existence of an emergency. This is somewhat like Red Cross assistance after an earthquake. When the assistance is continued year after year, however, as a normal matter, a psychological transformation takes place. What stands to count in the mind of the recipient is not the fact of assistance, which he now takes for granted, but the inadequacy. The United States apparently doesn't appreciate the magnitude of the recipient's problems in the field of economic development, or it doesn't really care. The recipient complains of neglect, and we in the

Department

Department begin to tell ourselves that we must do more to identify ourselves with Latin American aspirations for economic development. This whole tendency, of which the Congress was justly fearful, is greatly aggravated when (even on an emergency basis and for such Inter-American purposes as Hemisphere security) we are making billions of dollars available in grant aid to European and Asiatic countries.

The policy of gratuitous assistance, after its initial effect, appears to do the reverse of what it seeks to do in so far as its objective is to promote attitudes favorable to the United States. This would not be so, perhaps, if we could multiply our assistance year by year in perpetuity, which we are under pressure to do, but this is clearly impossible.

The eventual generation of a pauper psychology in the minds of the recipients has another deleterious effect in terms of our objectives. It promotes that disposition of the Latin Americans to look to outsiders (namely the US) for the solution of their problems which this study recognizes as one of the obstacles to be overcome in promoting economic development in Latin America. Finally, it makes the United States appear responsible for failures to realize the goals of economic development.

* * * * * *

Our policy

[redacted]

Our policy has already got us into a dilemma, here, which it will not be easy for us to get out of. But we shall not get out of it at all and we may, in fact, sink deeper into it if we do not begin by recognising it. While we could not cut off grant aid now abruptly, without consequences even more serious than those we foresaw if Congress has cut it off abruptly in 1964, an explicit recognition of the dilemma would lead us, as in the case of the Middle Eastern paper, to such ways of limiting our commitment and gradually regaining our freedom from it. That is the positive proposal which this memorandum puts forward.

* * *

Having posed the problem and having suggested how we might be approach a solution, it remains to examine the argument, [redacted] in the present draft study.*

Para. [redacted] of section [redacted], 'Conclusions and Recommendations,' states that "The outstanding conclusion to be drawn from this study is that the United States should [redacted] with its presentations to the world community problems by more positive acceptance of programs

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* In the present connection, it should be noted that the study does not deal with the technical assistance programs as such programs, treating a possible need for grant programs as something separate and additional. But the grant element in the technical assistance programs ought to be

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[illegible] refers, as "the three most important causes of Latin American dissatisfaction with US aid during the postwar years ... the relative position Latin America has had in our foreign aid programs as a whole." Paragraph 10, [illegible] and 12 elaborate on this cause of dissatisfaction and report that "Latin American self-esteem and pride received a rude shock from the realization that they apparently occupied ... the lowest position on the worldwide list of countries whose friendship the US apparently desired." No [illegible] of the Latin American dissatisfaction is put forward. Paragraph 13, finally, after stating that "the [illegible] program and the technical assistance projects undertaken by the US have, on the whole, been unquestionably responsible for the success," adds that this "remarkable success [illegible] in the face of the prevailing belief that, while they [illegible] [by misdirecting], that the United States has been neglecting Latin America."

[illegible] this, a just picture of our experience [illegible] poses great problems for [illegible] our aid program is to serve [illegible] over two or three years, but to [illegible] of the Executive so that the [illegible] public, under accepted principles of [illegible] should in principle

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[illegible] to be on the contributing end), the Latin Americans think of them as expressions of friendship. Should we base our policy on this misconception, assuming that it will persist, or should we seek to correct it?

If we can correct it, then that is how to solve the problem as this study poses it. This study, however, does not propose this solution.

Alternatively, the solution would appear to be either [illegible] giving other areas more aid than we give Latin America, whatever the security requirements, or that we give Latin America, out of friendship, as much as we give the others.

This, finally, raises the question of what is meant by [illegible] of the "conclusions and recommendations by "more additional cooperation in programs of economic and social [illegible]" -- the need for this "more positive cooperation" within the contributing conclusion to be drawn from this study.

[illegible] the argument, that the adoption of "additional programs by itself" would not solve the [illegible] of unfavorable sentiments toward the US. Paragraph [illegible] of the "conclusions and recommendations" refers to the advantage of "[illegible]", whereby consideration of the [illegible] as an economic [illegible] in Latin America during

[redacted]

[redacted] political climate." It associates this "fresh start" with "the adoption of a more positive program, based on the recommendations outlined above." It is, then, in the paragraphs between 13 and 18 that we must look for the recommendations that define the projected program.

Paragraph 14 and 15 contain no recommendations.

Paragraph 16 says that "the maintenance of a liberal US [illegible] trade policy ... is essential."

Paragraph 17 refers to the problems created by fluctuations in the price of raw materials exported by Latin American and states that "various approaches to the problem [illegible] world on a commodity and the one adopted which will [illegible] for Latin American nations the [illegible] of US economic requirements."

Paragraph 18 [illegible] contains no recommendation.

Paragraph 20 [illegible] would seem advisable ... to review our present public lending program in Latin America [illegible] determine ... whether our investments [illegible] objectives could not be enhanced by increasing the rate [illegible] clarity ... and [illegible] investment ... [redacted] ... [illegible] more positive [illegible] ... [illegible] ... [illegible] one possible conclusion ... a more positive policy.

Skipping

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[redacted]

[redacted] to paragraph 23, we find the recommendation that we should continue our present policy of urging Latin American countries to create conditions favorable to foreign private investment while reviewing our tax and other policies with the same end in view. The "fresh start," the "more positive program," does not emerge here.

Paragraph 21, [redacted], recommends only the continuance of present programs. "We should continue [redacted] technical assistance program," it says, "both through bilateral arrangements and international organizations as appropriate."

This leaves only paragraph 22 for the definition of the new positive program." This proposes [redacted] the use of the loan grants for economic development as [redacted] planned for the use made for technical assistance and ability purposes, should be extended to Latin America. It deals with it in two sentences and rather obliquely [redacted] circumstances under which this kind of grant aid [redacted] considered and other circumstances in which it should not normally be considered. In the [redacted] the recommendation is that

As a general

[redacted]

[redacted]

"As a general rule it appears sound first to exhaust the possibilities of meeting Latin America's foreign capital requirements through non-grant channels." (Comment: Since the requirements will probably continue to exceed the non-grant possibilities, this sentence appears merely to establish the point at which we should start making these grants.) "However, there are certain cases, such as the present crisis in Bolivia, or the Inter-American Highway, which appear to warrant consideration of the need for grants to avoid imminent and serious setbacks to US political interests." (Comment: the "however" makes this a suggestion for an exception to the "general rule" set forth in the sentence preceding it.

If we make a grant to Bolivia in her present crisis, can we refuse to do the same for Ecuador when her crisis reaches the same point? Other republics too?). "A substantial drop in Latin America's export earnings might also radically change the present picture. Under present conditions, however, it appears unnecessary to consider any extensive grant program so long as other methods, indicated above, are adopted to help maintain a satisfactory rate of economic growth."

If this appears to be an inadequate discussion of possible grant policy, an examination of the body of the study appears to yield only one additional sentence: "Evidence is lacking on the basis of which it could be concluded that large scale financial grants are now necessary to permit this type of basic economic activity /I.e. basic utilities and social services essential to development/ to be maintained at a rate which would enable Latin American output to continue to outrun population growth." (Section Four, Part I, #53).

One concludes that the "fresh start" made on the basis of a more positive program of economic assistance, and bearing in mind the fact that "a moderate increase in aid programs by itself" would not solve the problem, is to consist

consist of a possible increase of public loans supplemented by grant aid as it becomes necessary, with perhaps some solution to be found for the problem of fluctuating raw material prices.

To those of us who are disturbed at the picture of the United States Government trying to keep up with the foreign demand for gratuitous economic assistance, and becoming increasingly unpopular as it fails to keep up with that demand, this recommendation for a little more or a lot more (whichever it may be) is not reassuring. It raises a basic policy issue that should be looked at squarely and given the most thoughtful consideration.

Included in that consideration should be a concern for what may happen when we commit ourselves to ever larger programs of grant aid, as an expression of our normal friendship and interest in the welfare of others, without assurance that Congress will continue over the years to make the necessary appropriations.

Our alternative, as was said above, is to seek ways of limiting our commitment and gradually regaining our freedom from it.

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N.B. I have some other comments to offer on the present draft of this Latin American study, which I shall set forth in

in a separate brief memorandum, since it has seemed to me that the issue dealt with above deserves a memorandum to itself.

I should add that, aside from the large issue I have raised and certain other criticisms, I think the study is good, the best single piece of work the Department has produced on the subject.

State--PB, Washington, D.C.

S/P:LJHalle:gw
Sept. 29, 1953
SECRET SECURITY INFORMATION

S/P - Mr. Bowie:

Additional Comments on the Draft
Latin American Study

I have sent you a separate memorandum raising a question of policy with respect to what the present draft of our Latin American Study has to say about economic aid programs. This companion memorandum deals with other aspects of the draft.

Section One, "The Latin American Scene", Paragraph 39.

This paragraph begins with the statement: "Since early in the nineteenth century, a special relationship has existed between the United States and the countries of Latin America."

This special relationship has been very real, but the fact is that it has existed as an expression and inevitable concomitant of our Hemisphere isolationism, which ended on December 7, 1941. From the beginning we shared with the Latin Americans a sense of escape from the sordid political systems of the Old World, and a desire to keep the virgin New World isolated from ideological contamination. Recall Monroe's language: "we are of necessity more immediately connected with the movements in this Hemisphere, which has a political system essentially different from that of the allied

allied powers in Europe". This attitude persisted and was as unqualified in its expression by us at the Panama Meeting of 1939 as it had been in Monroe's expression. But, with the abandonment of our isolationism, the foundation on which the "special relationship" had been built went out from under it. With the development of NATO we may be thought to have deserted the "exclusive" cause of the New World, to have recrossed the Atlantic, to have associated ourselves once more with the sordid political system of the Old World from which our forefathers had escaped. The underlying problem of our political relations with Latin America ever since has been how to retain the advantages of the "special relationship" after its political context has disappeared. As this is central to our political and psychological relations with Latin America since the war, showing up especially in Latin American dissatisfaction with our economic aid policy, I think it should not be omitted from a study of the present dimensions. This draft leaves the impression that nothing has occurred to change the "special relationship" since it was implemented by the non-intervention agreements of 1933 and 1936.

Section Five. "Security Problems"

Paragraph 8 reports that the Defense Scheme and the Military Plan make each State responsible for "its internal security

security and territorial integrity, the protection of its coasts and coastal waters and the defense of its coastwise maritime traffic". Paragraph 4 says that Latin American military establishments "are generally capable of maintaining or restoring internal order and of patrolling coastal areas". This indicates that Latin American military establishments are generally adequate to the Hemisphere defense missions listed above. Paragraph 8 also mentions that the Hemisphere Defense Plan "assigns responsibility for coordinating and planning the defense of inter-American maritime traffic in two ... specified areas to the States in each of those areas", but paragraph 9 indicates that, for social and political reasons, they cannot realistically be expected to undertake this. Paragraph 20 calls attention to the fact that "only limited progress is being registered toward establishing large scale Latin American forces which could play a meaningful role in hemisphere defense, let alone in overseas conflicts", adding that "their absence might prove a ... serious liability ...." But nowhere is there any statement that we have the objective of "establishing large scale Latin American forces which could play a meaningful role in hemisphere defense". Presumably, the objective of "establishing large scale Latin American forces", if we have it (as this

(as this implies), has been established in spite of the small scale of Latin American economies and with a view to the problems this creates. However, this whole section on security programs is ambiguous with respect to the role of Latin American forces in Hemisphere defense. It assigns them a very modest role, for which it indicates that they are adequate, and then concerns itself at length with their insufficienc to other, undefined roles. At the least, this seems to represent a degree of imprecision in the drafting of this paper or in the policy that it reports.

State--PB, Washington, D.C.